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FISCAL UPDATE Article
Fiscal Services Division
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END OF SESSION — SF 505 — HOMEBUYER SAVINGS ACCOUNT INCOME TAX EXEMPTION

Description: Senate File 505 creates a new State individual income tax deduction for qualified deposits to a First-time Homebuyer Savings Account. While there is no limit to the amount a taxpayer may contribute to an account, deposits qualifying for the income tax deduction are limited to $2,000 per year for an individual account or $4,000 per year for a married couple with a joint account. Interest earned on account balances is also exempt from State income tax. The $2,000/$4,000 limits are adjusted annually for inflation.

An Iowa resident qualifies as a first-time homebuyer if the resident has not owned, either individually or jointly, a single or multifamily residence for the previous three years.

A First-time Homebuyer Savings Account may be established by anyone, and each established account must specify a Designated Beneficiary. A Designated Beneficiary is the person who will utilize the funds within the account to purchase a home. The person who establishes the account and the Designated Beneficiary do not need to be the same person. A Designated Beneficiary must qualify as a first-time homebuyer at the time the account is established and at the time the funds within the account are used for a home purchase.

A qualifying First-time Homebuyer Savings Account must be an interest-bearing savings account and established with a State or federally chartered bank, savings and loan association, credit union, or trust company in Iowa. The money within an account is available for up to 10 years to be used for the qualifying purchase costs of a single-family residence. If the money in an account is withdrawn for a nonqualified reason or if the money is not used to purchase a home within 10 years, the money not used for a qualifying purchase, plus 10.0%, is added to the account holder's taxable income for State income tax purposes. The 10.0% penalty does not apply if the withdrawal is due to the death of the account holder or due to a garnishment, levy, or order.

Fiscal Impact: The new individual income tax exemption is projected to reduce net General Fund revenue by the following amounts:

First-time Homebuyer Tax Exemption
In Millions

	General Fund Revenue Reduction
FY 2019	$ -0.2
FY 2020	-0.7
FY 2021	-1.3
FY 2022	-1.9
FY 2023	-2.0
FY 2024	-2.0

For fiscal years beyond FY 2024, the fiscal impact is expected to increase modestly. The new tax exemption will reduce State tax liability and it will also reduce the revenue raised by the local option income surtax for school jurisdictions with the surtax in place. This new exemption is projected to reduce the statewide surtax yield by $50,000 to $100,000 annually.

Effective Date: The Bill was approved by the General Assembly on April 18, 2017, and is currently awaiting approval in the Governor's office. If enacted, the Bill takes effect July 1, 2017, and the exemption would first be available for tax year 2018.

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